

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

LETTER OF TRANSMITTAL
AUDIT EXAMINATION OF THE
HENDERSON COUNTY FISCAL COURT

June 30, 2003

The Auditor of Public Accounts has completed the audit of the Henderson County Fiscal Court for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$8,658,758 as of June 30, 2003. The fiscal court had unrestricted net assets of \$4,217,591 in its governmental activities as of June 30, 2003, with total net assets of \$8,634,871. In its enterprise fund, total net cash and cash equivalents were \$18,105 with total net assets of \$23,887. The fiscal court had total debt principal as of June 30, 2003 of \$14,489,154 with \$549,533 due within the next year.

Report Comments:

- The County Should Adopt An Administrative Code In Accordance With KRS 68.005

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
HENDERSON COUNTY OFFICIALS.....	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	13
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	16
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	21
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	24
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	29
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	33
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	37
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	41
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS	45
NOTES TO FINANCIAL STATEMENTS.....	47
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS	65
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	68
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	71
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	74
COMMENT AND RECOMMENDATION.....	79
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	83
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting as described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson County, Kentucky's basic financial statements. The accompanying supplementary information, and combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2004 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Adopt An Administrative Code In Accordance With KRS 68.005

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 7, 2004

HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2003

Fiscal Court Members:

Sandy Lee Watkins	County Judge/Executive
Wanda Lee Pruden	Magistrate
Charles G. Alexander	Magistrate
Herbert McKee	Magistrate
Donald Hugh McCormick	Magistrate
James C. Hicks	Magistrate

Other Elected Officials:

Charles McCollom	County Attorney
Miles Hart	Jailer
Renny Matthews	County Clerk
Sonny Burton	Circuit Court Clerk
Dennis Clary	Sheriff
Steve Hargis	Property Valuation Administrator
Don Cantley M.D.	Coroner

Appointed Personnel:

Rebecca Carroll	County Treasurer
Paula Pritchett	Finance Officer



OFFICE OF THE COUNTY JUDGE/EXECUTIVE

COURTHOUSE Henderson, Kentucky 42420

SANDY L. WATKINS
HENDERSON COUNTY JUDGE/EXECUTIVE

TELEPHONES
(270) 826-3971
(270) 827-6000
FAX (270) 827-6002

**Management's Discussion and Analysis
June 30, 2003**

The financial management of Henderson County, Kentucky offers readers of Henderson County's financial statements this narrative overview and analysis of the financial activities of Henderson County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights.

- Henderson County had net assets of \$8,658,758 as of June 30, 2003. The fiscal court had unrestricted net assets of \$4,217,591 in the governmental activities as of June 30, 2003, with total net assets of \$8,634,871. In its enterprise fund, cash and cash equivalents were \$18,105 with total assets of \$23,887. Total debt for governmental activities principal as of June 30, 2003 was \$14,489,154 with \$549,533 due within one year.
- The governmental activities total net assets increased by \$320,942 from the prior year. This increase is primarily due to changes in governmental accounting practices.
- At the close of the current fiscal year, Henderson County governmental funds reported current assets of \$4,251,173. Of this amount, \$4,169,891 is available for spending at the government's discretion (unreserved fund balance).
- Henderson County's total indebtedness at the close of fiscal year June 30, 2003 was \$14,489,154, of which \$13,939,621 is long-term debt (due after 1 year) and \$549,533 is short-term debt (to be paid within 1 year). Debt additions were \$29,154 for a new telephone system, and reductions were \$515,000 for a total of reduction of \$485,846.

Overview of the Financial Statements.

This management's discussion and analysis is intended to serve as an introduction to Henderson County's basic financial statements. Henderson County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules do not include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Henderson County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Henderson County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Henderson County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Henderson County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide statement of activities for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Henderson County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, other transportation facilities and services, debt service, and capital projects. Henderson County has one business type activity—the Jail Canteen Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Henderson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Henderson County can be divided into broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Henderson County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Governmental Funds. (Continued)

Henderson County maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- State Grant Fund
- Economic Development Fund
- Public Properties Corporation Capital Projects Fund
- Public Properties Corporation Debt Service Fund

Henderson County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Fund. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Jail Canteen Fund.

Fiduciary Funds Financial Statements. These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting used for fiduciary funds is much like that used for proprietary funds. The County has two fiduciary funds: the Jail Inmate Account and the Jail Escrow Account, both of which are agency funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Henderson County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Net Assets. (Continued)

Table 1
Henderson County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2002	2003	2002	2003	2002	2003
Assets						
Current and other assets	4,861,992	4,251,173	16,272	18,105	4,878,264	4,269,278
Capital assets	18,426,937	18,872,852	8,944	5,782	18,435,881	18,878,634
Total Assets	23,288,929	23,124,025	25,216	23,887	23,314,145	23,147,912
Liabilities						
Current and other liabilities		549,533	0	0	0	549,533
Long-term liabilities	14,975,000	13,939,621	0	0	14,975,000	13,939,621
Total Liabilities	14,975,000	14,489,154	0	0	14,975,000	14,489,154
Net Assets						
Invested in capital assets, net of related debt	3,451,937	4,383,698	8,944	5,782	3,460,881	4,389,480
Restricted	33,412	33,582	0	0	33,412	33,582
Unrestricted	4,828,580	4,217,591	16,272	18,105	4,844,852	4,235,696
Total Net Assets	8,313,929	8,634,871	25,216	23,887	8,339,145	8,658,758

Changes in Net Assets.

Governmental Activities. Henderson County's net assets increased by \$320,942 in fiscal year 2003. The key element in that increase was the decrease in the long-term liabilities on the public properties bond issues.

Business-type Activities. Henderson County's net assets decreased by \$1,329. The key element in this decrease was depreciation expense.

Financial Analysis of the County's Funds.

As noted earlier, Henderson County uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements.

Governmental Funds Overview. The focus of Henderson County governmental funds is to provide information on current inflows, outflows, and balances of spend able resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Henderson County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Financial Analysis of the County's Funds. (Continued)

As of the end of June 2003 fiscal year, the combined ending fund balances of Henderson County's governmental funds were \$4,251,173. Approximately 98% (\$4,169,891) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance, \$81,282, is reserved to indicate that it is not available for new spending because it is committed for various reasons.

The General Fund is the chief operating fund of Henderson County. At the end of the June 30, 2003 fiscal year, unreserved fund balance of the General Fund was \$3,728,630. The County received \$3,590,351 in real and personal property, motor vehicle, and other taxes for approximately 54% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 46% of revenues.

The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ending June 30, 2003 totaled \$3,201,704.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. The General Fund contributed \$525,000 to the jail operations.

The Local Government Economic Assistance Fund primary source of revenue comes from coal severance and mineral taxes. It had an ending balance of \$25,373.

The State Grant Fund is primarily made up of flow-through money for grants such as Juvenile Justice Grants where funding is from the state. The ending balance was \$24,826.

The Economic Development Fund has not had much use in the past several years. Its ending balance was \$6,356 and the only activity was interest of \$59 for the year.

The Public Properties Corporation Capital Projects Fund had an ending balance of \$239,732. This is money that has not yet been spent upon the completion of the Judicial Center Project.

The Public Properties Corporation Debt Service Fund had an ending balance of \$1,385.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Henderson County's proprietary fund is the Jail Canteen Fund. The Jail Canteen Fund's total cash balance was \$18,105.

General Fund Budgetary Highlights.

Henderson County's general fund budget was not amended during the fiscal year.

Henderson County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Capital Assets and Debt Administration.

Capital Assets. Henderson County's investment in capital assets for its government and business type activities as of June 30, 2003, amount to \$18,878,634 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and current infrastructure additions.

Additional information on the County's capital assets can be found in Note 3 of this report.

Table 2
Henderson County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2002	2003	2002	2003	2002	2003
Infrastructure Assets	0	535,157	0	0	0	535,157
Land & Land Improvements	397,212	397,212	0	0	397,212	397,212
Buildings	16,548,029	16,279,755	0	0	16,548,029	16,279,755
Vehicles & Equip.	1,481,696	1,660,728	8,944	5,782	1,490,640	1,666,510
Total Net Capital Assets	18,426,937	18,872,852	8,944	5,782	18,435,881	18,878,634

Long-Term Debt. At the end of the 2003 fiscal year, Henderson County had total bonded debt outstanding of \$14,489,154 from general obligation bonds and financing obligations principal payments. Additional information on the county's long-term debt can be found in Notes 5 and 6.

Other Matters.

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2004 fiscal year budget:

- The 2004 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rapid growth of the cost of solid waste to the County is becoming a big expense in the County's operating budget.

Requests For Information.

This financial report is designed to provide a general overview of Henderson County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Henderson County Treasurer, 20 N. Main Street, Henderson, KY 42420.

HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,251,173	\$ 18,105	\$ 4,269,278
Total Current Assets	4,251,173	18,105	4,269,278
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	397,212		397,212
Buildings	16,279,755		16,279,755
Vehicles and Equipment	1,660,728	5,782	1,666,510
Infrastructure Assets - Net of Depreciation	535,157		535,157
Total Noncurrent Assets	18,872,852	5,782	18,878,634
Total Assets	23,124,025	23,887	23,147,912
LIABILITIES			
Current Liabilities:			
Bonds Payable	540,000		540,000
Financing Obligations Payable	9,533		9,533
Total Current Liabilities	549,533		549,533
Noncurrent Liabilities:			
Bonds Payable	13,920,000		13,920,000
Financing Obligations Payable	19,621		19,621
Total Noncurrent Liabilities	13,939,621		13,939,621
Total Liabilities	14,489,154		14,489,154
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 4,383,698	\$ 5,782	\$ 4,389,480
Restricted For:			
Cemetery Funds	32,197		32,197
Debt Service	1,385		1,385
Unrestricted	4,217,591	18,105	4,235,696
Total Net Assets	\$ 8,634,871	\$ 23,887	\$ 8,658,758

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,780,628	\$ 224,747	\$ 3,003,813	\$ 312,973
Protection to Persons and Property	3,301,864	2,032,192	627,228	
General Health and Sanitation	482,076	8,777		
Social Services	221,532			
Recreation and Culture	143,995			
Roads	2,224,758	21,158	1,931,342	120,700
Bus Services	32,500			
Other Transportation Facilities and Services	10,000			
Interest on Long-Term Debt	807,346			
Capital Projects	116,695			
Total Governmental Activities	12,121,394	2,286,874	5,562,383	433,673
Business-type Activities:				
Jail Canteen Fund	228,626	227,132		
Total Business-type Activities	228,626	227,132		
Total Primary Government	\$ 12,350,020	\$ 2,514,006	\$ 5,562,383	\$ 433,673

General Revenues:

Taxes:

Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 In Lieu Tax Payments
 Excess Fees
 Legal Process
 Miscellaneous Revenues
 Interest Earned
 Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,239,095)	\$	\$ (1,239,095)
(642,444)		(642,444)
(473,299)		(473,299)
(221,532)		(221,532)
(143,995)		(143,995)
(151,558)		(151,558)
(32,500)		(32,500)
(10,000)		(10,000)
(807,346)		(807,346)
(116,695)		(116,695)
(3,838,464)		(3,838,464)
	(1,494)	(1,494)
	(1,494)	(1,494)
\$ (3,838,464)	\$ (1,494)	\$ (3,839,958)

1,284,093		1,284,093
242,822		242,822
198,305		198,305
1,782,238		1,782,238
82,892		82,892
58,387		58,387
545		545
347,807		347,807
162,317	165	162,482
4,159,406	165	4,159,571
320,942	(1,329)	319,613
8,313,929	25,216	8,339,145
\$ 8,634,871	\$ 23,887	\$ 8,658,758

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	General Fund	Road And Bridge Fund	Jail Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,792,844	\$ 31,977	\$ 128,680	\$ 297,672	\$ 4,251,173
Total Assets	<u>\$ 3,792,844</u>	<u>\$ 31,977</u>	<u>\$ 128,680</u>	<u>\$ 297,672</u>	<u>\$ 4,251,173</u>
 FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 32,017	\$	\$	\$ 17,068	\$ 49,085
Cemetery Funds	32,197				32,197
Unreserved:					
General Fund	3,728,630				3,728,630
Special Revenue Funds		31,977	128,680	39,487	200,144
Capital Projects Fund				239,732	239,732
Debt Service Fund				1,385	1,385
Total Fund Balances	<u>\$ 3,792,844</u>	<u>\$ 31,977</u>	<u>\$ 128,680</u>	<u>\$ 297,672</u>	<u>\$ 4,251,173</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 4,251,173
Amounts reported for governmental activities in the statement of net assets are different because:	
capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,747,304
Accumulated depreciation	(2,874,452)
Liabilities:	
Due within one year - bonds, notes, and lease principal payments	(549,533)
Due in more than one year - bonds, notes, and lease principal payments	(13,939,621)
Net Assets Of Governmental Activities	<u>\$ 8,634,871</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 3,507,459	\$	\$
In Lieu Tax Payments	82,892		
Excess Fees	58,387		
Licenses and Permits	182,318		
Intergovernmental	2,429,538	1,515,545	2,479,562
Charges for Services	2,016	21,158	99,098
Miscellaneous	115,433	5,384	265,431
Interest	153,062	3,058	2,633
Total Revenues	<u>6,531,105</u>	<u>1,545,145</u>	<u>2,846,724</u>
EXPENDITURES			
General Government	3,203,766		
Protection to Persons and Property	426,983		2,507,062
General Health and Sanitation	35,000		
Social Services			
Recreation and Culture	129,195		
Roads		2,834,030	
Bus Services			
Other Transportation Facilities and Service			
Debt Service			
Capital Projects	110,278		
Administration	646,780	367,674	384,827
Total Expenditures	<u>4,552,002</u>	<u>3,201,704</u>	<u>2,891,889</u>
Excess (Deficiency) of Revenues Over Expenditures Before			
Financing Sources (Uses)	<u>1,979,103</u>	<u>(1,656,559)</u>	<u>(45,165)</u>
Other Financing Sources (Uses)			
KACO Lease Proceeds	29,154		
Transfers From Other Funds	30,825	1,624,195	525,000
Transfers To Other Funds	(2,475,000)		(582,900)
Total Other Financing Sources (Uses)	<u>(2,415,021)</u>	<u>1,624,195</u>	<u>(57,900)</u>
Net Change in Fund Balances	(435,918)	(32,364)	(103,065)
Fund Balances - Beginning (restated)	4,228,762	64,341	231,745
Fund Balances - Ending	<u>\$ 3,792,844</u>	<u>\$ 31,977</u>	<u>\$ 128,680</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

Non- Major Funds	Total Governmental Funds
	\$ 3,507,459
	82,892
	58,387
	182,318
1,515,797	7,940,442
	122,272
	386,248
3,565	162,318
<u>1,519,362</u>	<u>12,442,336</u>
45,000	3,248,766
257,285	3,191,330
447,076	482,076
221,532	221,532
14,800	143,995
79,758	2,913,788
32,500	32,500
10,000	10,000
1,322,346	1,322,346
6,417	116,695
	1,399,281
<u>2,436,714</u>	<u>13,082,309</u>
<u>(917,352)</u>	<u>(639,973)</u>
	29,154
957,900	3,137,920
<u>(80,020)</u>	<u>(3,137,920)</u>
<u>877,880</u>	<u>29,154</u>
(39,472)	(610,819)
337,144	4,861,992
<u>\$ 297,672</u>	<u>\$ 4,251,173</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2003

**HENDERSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2003

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (610,819)
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital assets - deletion	(20,946)
Capital outlay	1,025,714
Depreciation expense	(558,853)
Borrowed money	(29,154)

Lease and bond principal payments are expensed in the governmental funds as a use of current financial resources.

Bond payment	515,000
--------------	---------

Change in Net Assets of Governmental Activities	\$ 320,942
---	------------

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 18,105
Total Current Assets	<u>18,105</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	18,600
Less Accumulated depreciation	<u>(12,818)</u>
Total Noncurrent Assets	<u>5,782</u>
Total Assets	<u>23,887</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	5,782
Unrestricted	<u>18,105</u>
Total Net Assets	<u>\$ 23,887</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 227,132
Total Operating Revenues	<u>227,132</u>
Operating Expenses	
Cost of Sales	172,899
Educational and Recreational	38,505
Depreciation	3,162
Miscellaneous	<u>14,060</u>
Total Operating Expenses	<u>228,626</u>
Operating Income (Loss)	<u>(1,494)</u>
Nonoperating Revenues (Expenses)	
Interest Income	165
Inmate Pay From State	26,710
Inmate Refunds	<u>(26,710)</u>
Total Nonoperating Revenues (Expenses)	<u>165</u>
Change in net assets	(1,329)
Total Net Assets - Beginning (restated)	<u>25,216</u>
Total Net Assets - Ending	<u><u>\$ 23,887</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 227,132
Cost of Sales	(172,899)
Educational and Recreational	(38,505)
Miscellaneous	(14,060)
Net Cash Provided By Operating Activities	<u>1,668</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	26,710
Inmate Refunds on Accounts	(26,710)
Net Cash Provided By Noncapital Financing Activities	<u></u>
Cash Flows From Investing Activities	
Interest Earned	<u>165</u>
Net Cash Provided By Investing Activities	<u>165</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,833
Cash and Cash Equivalents - July 1	<u>16,272</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 18,105</u></u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2003 (Continued)

	Business-Type Activities - Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	\$ (1,494)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>3,162</u>
Total Cash Provided By Operating Activities	<u><u>\$ 1,668</u></u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

HENDERSON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Agency Funds</u>	
	<u>Jail Inmate Account</u>	<u>Jail Escrow Account</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	<u>\$ 36,973</u>	<u>\$ 11,270</u>
Total assets	<u> 36,973</u>	<u> 11,270</u>
Liabilities		
Amounts Held In Custody For Others	<u> 36,973</u>	<u> 11,270</u>
Total Liabilities	<u> 36,973</u>	<u> 11,270</u>
Net Assets		
Total Net Assets	<u><u> \$ 0</u></u>	<u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	47
NOTE 2.	DEPOSITS.....	54
NOTE 3.	CAPITAL ASSETS	54
NOTE 4.	SHORT-TERM DEBT	56
NOTE 5.	LONG-TERM DEBT.....	56
NOTE 6.	FINANCING OBLIGATIONS	58
NOTE 7.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	59
NOTE 8.	COMMITMENTS AND CONTINGENCIES	59
NOTE 9.	EMPLOYEE RETIREMENT SYSTEM	60
NOTE 10.	DEFERRED COMPENSATION	60
NOTE 11.	INSURANCE	61
NOTE 12.	SUBSEQUENT EVENTS	61
NOTE 13.	CHANGES IN ACCOUNTING PRINCIPLES.....	61

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though it is part of the county's primary government using the blending method.

Henderson County Public Properties Corporation

The Henderson County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements. All activities of the Public Properties Corporation are accounted for within a governmental fund.

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Additional - Henderson County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for election of the above officials from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, State Grant Fund, Economic Development Fund, Public Properties Corporation Capital Projects Fund, and Public Properties Corporation Debt Service Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, and Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes, capital asset acquisition and construction, and payment on long-term debt.

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Public Properties Corporation Capital Projects Fund accounts for the activities of the Capital Projects Fund, a blended component unit of the county. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities. The purpose of this fund is to account for funds received from a bond issuance for the construction of a courts facility. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Debt Service Fund:

The Public Properties Corporation Debt Service Fund accounts for the activities of the Debt Service Fund, a blended component unit of the county. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government had elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary Funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds are used to account for monies held by the jail commissary in the Jail Inmate Account and Jail Escrow Account for custodial purposes only. Unlike other funds, the agency funds report assets and liabilities only; therefore, they have no measurement focus.

The primary government reports the following major fiduciary funds:

Jail Inmate Account – This fund accounts for funds received from inmates and held until inmate uses these funds.

Jail Escrow Account – This fund accounts for funds received from inmates but jailer is unable to locate former inmates to return funds.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. The county has elected to only report current year infrastructure. The county will, within four years and in accordance with GASB Statement 34, record infrastructure bought or constructed between 1980 and 2002.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditure. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court: Tourism Commission and Regional Industrial Development.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Henderson County Fiscal Court:

Henderson City-County Planning Commission

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City- County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2003, the Fiscal Court paid the Planning Commission \$156,281.

Tri-County Recycling

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for Tri-County Recycling. Tri-County Recycling is a joint venture among the Fiscal Court, Union County and Webster County, and the City of Henderson to provide recycling opportunities for each county. The costs associated with Tri-County Recycling are paid by each participant on a pro-rata basis. During fiscal year 2003, the Fiscal Court paid Tri-County Recycling \$15,982.

West Kentucky Regional Industrial Authority

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture among the Fiscal Court and Union, Webster and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the fiscal court's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the fiscal court as beneficiary/obligee on the bond.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 397,212	\$	\$	\$ 397,212
Total Capital Assets Not Being Depreciated	397,212			397,212
Capital Assets, Being Depreciated:				
Buildings	17,509,973			17,509,973
Vehicles and Equipment	2,839,641	452,331	(25,236)	3,266,736
Infrastructure		573,383		573,383
Total Capital Assets Being Depreciated	20,349,614	1,025,714	(25,236)	21,350,092
Less Accumulated Depreciation For:				
Buildings	(961,944)	(268,274)		(1,230,218)
Vehicles and Equipment	(1,357,945)	(252,353)	4,290	(1,606,008)
Infrastructure		(38,226)		(38,226)
Total Accumulated Depreciation	(2,319,889)	(558,853)	4,290	(2,874,452)
Total Capital Assets, Being Depreciated, Net	18,029,725	466,861	(20,946)	18,475,640
Governmental Activities Capital Assets, Net	\$ 18,426,937	\$ 466,861	\$ (20,946)	\$ 18,872,852

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2003 was as follows: (Continued)

Primary Government: (Continued)	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 18,600	\$	\$	\$ 18,600
Total Capital Assets Being Depreciated	18,600			18,600
Less Accumulated Depreciation For:				
Vehicles and Equipment	(9,656)	(3,162)		(12,818)
Total Accumulated Depreciation	(9,656)	(3,162)		(12,818)
Total Capital Assets, Being Depreciated, Net	8,944	(3,162)		5,782
Business-Type Activities Capital Assets, Net	\$ 8,944	\$ (3,162)	\$	\$ 5,782

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 179,687
Protection to Persons and Property	169,764
Roads, Including Depreciation of General Infrastructure Assets	<u>209,402</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 558,853</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 3,162</u>
Total Depreciation Expense - Business Activities	<u>\$ 3,162</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Short-term Debt

In July 2002 Henderson County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$2,386,400, with principal being due in January 2003. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program.

Changes in Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$ 0	\$2,386,400	\$ (2,386,400)	\$ 0
Governmental Activities				
Long-term Liabilities	\$ 0	\$ 2,386,400	\$ (2,386,400)	\$ 0

Note 5. Long-term Debt

A. Detention Center

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Center Project) Series 1995 on June 29, 1995, for the purpose of paying the cost of constructing a new county detention facility and the cost of issuance of the bonds. The issue amount of the bonds was \$7,060,000. The Corporation and the County have entered into an annually renewable lease, dated June 1, 1995, wherein, the County shall lease the detention facility from the Corporation at an agreed rental which will be used to pay the principal and interest on the bonds.

The Henderson County Public Properties Corporation entered into a lease agreement with the County in which the County will lease from the Corporation the detention center facility in the amount of the aggregate of the interest on and the principal of the bonds, which are due and payable during the lease period, the cost of operation and maintenance of the project, the cost of insuring the project and the annual trustee fee. Rental payments are due semiannually on June 1st and December 1st of each year. The interest rate on the bonds is 5.00%. The outstanding balance as of June 30, 2003 was \$5,030,000. Future principal and interest requirements are:

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-term Debt (Continued)

A. Detention Center (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 315,000	\$ 267,900
2005	330,000	252,150
2006	345,000	235,650
2007	360,000	218,400
2008	380,000	200,040
2009-2013	2,230,000	673,760
2014-2015	1,070,000	89,100
Totals	<u>\$ 5,030,000</u>	<u>\$ 1,937,000</u>

B. Courts Facility

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Court Facilities Project), Series 2000 on April 15, 2000 for the purpose of financing the cost of the acquisition, construction, and equipping of a court facility and the cost of issuance of bonds. The issue amount of the bonds was \$9,975,000. The corporation and the County have entered into an annually renewable lease, dated April 15, 2000, wherein the County shall lease the courts facility from the corporation at an agreed rental, which will be used to pay the principal and interest on the bonds.

The Henderson County Public Properties Corporation and the Henderson County Fiscal Court entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (the "AOC"), in which the AOC wishes to use the courts facility and will sublease from the corporation the courts facility, and make payments in the amount of the court's share of the interest on and the principal of the construction of the courts facility, but not to exceed 8% annually of capital costs. The lease is renewable April 15th of each even numbered year. Rental payments are due semiannually on January 20th and July 20th of each year. The interest rate on the bonds is 5.55%. The outstanding balance as of June 30, 2003 was \$9,430,000. Future principal and interest requirements are:

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-term Debt (Continued)

B. Courts Facility (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 225,000	\$ 504,342
2005	235,000	493,542
2006	245,000	482,144
2007	260,000	470,200
2008	270,000	457,460
2009-2013	1,575,000	2,068,904
2014-2018	2,025,000	1,612,342
2019-2023	2,635,000	996,154
2024-2026	1,960,000	222,808
Totals	<u>\$ 9,430,000</u>	<u>\$ 7,307,896</u>

Note 6. Financing Obligations

On May 14, 2003, the Henderson County Fiscal Court borrowed \$29,154 from Kentucky Association of Counties Leasing Trust for a phone system. The interest rate is 1.98%, with principal and interest due monthly. The termination date is January 20 2006. The principal balance at June 30, 2003 was \$29,154. Future debt service requirements of the General Fund are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2004	\$ 9,533	\$ 804
2005	9,717	431
2006	9,904	162
Totals	<u>\$ 29,154</u>	<u>\$ 1,397</u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Financing Obligations (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 14,975,000	\$	\$ 515,000	\$14,460,000	\$ 540,000
Financing Obligations		29,154		29,154	9,533
Governmental Activities					
Long-term Liabilities	<u>\$ 14,975,000</u>	<u>\$ 29,154</u>	<u>\$ 515,000</u>	<u>\$14,489,154</u>	<u>\$ 549,533</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Interest on Long-term Debt on the Statement of Activities includes \$10,000 in interest on financing obligations and \$797,346 in interest on bonds.

Note 8. Commitments and Contingencies

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bond issues.

B. Ambulance Service Agreement

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a County-wide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2003, were \$272,077.

C. Solid Waste Interlocal Agreement

In response to KRS 224.43-010 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2003, were \$12,635.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 8. Commitments and Contingencies (Continued)

D. Solid Waste Transfer Station Interlocal Agreement

The County of Henderson entered into an agreement with the City of Henderson to fund 50% of the construction and operation of a solid waste transfer station to be used in the collection and disposal of solid waste collected within the City and County. The agreement is for a five-year period, beginning July 1, 1995, and ending June 30, 2003, with the option to renew for four, consecutive, five-year terms unless written notice is provided by either party. The County's portion of operational costs for fiscal year ended June 30, 2003, was \$300,378.

Note 9. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

In March 1997, the Henderson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 11. Insurance

For the fiscal year ended June 30, 2003, Henderson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Subsequent Events

The County of Henderson, Kentucky issued bonds dated August 1, 2003, for the purpose of (i) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing on June 1, 2007 through June 1, 2015, (ii) paying the costs associated with the expansion, renovation, improvement, and equipping of the Detention Facility located in Henderson, Kentucky. The issue amount of the bonds was \$7,080,000. Interest on the bonds will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2003. The bonds will mature on June 1 of each year thereafter.

Note 13. Changes in Accounting Principles

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities was \$8,313,929 and the beginning governmental fund balance was \$4,861,992 for an increase of \$3,451,937 that was due to capital assets previously omitted. The beginning net asset balance of the business-type activities was \$25,216 and the beginning cash and cash equivalent balance was \$16,272 for an increase of \$8,944 that was due to capital assets previously omitted.

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2003

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2003

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,002,400	\$ 3,002,400	\$ 3,507,459	\$ 505,059
In Lieu Tax Payments	81,900	81,900	82,892	992
Excess Fees	68,639	68,639	58,387	(10,252)
Licenses and Permits	177,150	177,150	182,318	5,168
Intergovernmental Revenue	2,172,797	2,172,797	2,429,538	256,741
Charges for Services	2,016	2,016	2,016	
Miscellaneous	35,925	35,925	115,433	79,508
Interest	200,000	200,000	153,062	(46,938)
Total Revenues	<u>5,740,827</u>	<u>5,740,827</u>	<u>6,531,105</u>	<u>790,278</u>
EXPENDITURES				
General Government	3,201,636	3,253,745	3,203,766	49,979
Protection to Persons and Property	542,609	546,968	426,983	119,985
General Health and Sanitation	40,000	40,000	35,000	5,000
Recreation and Culture	125,000	129,195	129,195	
Capital Projects	600,000	610,278	110,278	500,000
Administration	739,426	668,485	646,780	21,705
Total Expenditures	<u>5,248,671</u>	<u>5,248,671</u>	<u>4,552,002</u>	<u>696,669</u>
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>492,156</u>	<u>492,156</u>	<u>1,979,103</u>	<u>1,486,947</u>
OTHER FINANCING SOURCES (USES)				
KACO Lease Proceeds			29,154	29,154
Transfers From Other Funds	30,825	30,825	30,825	
Transfers To Other Funds	<u>(2,715,000)</u>	<u>(2,715,000)</u>	<u>(2,475,000)</u>	<u>240,000</u>
Total Other Financing Sources (Uses)	<u>(2,684,175)</u>	<u>(2,684,175)</u>	<u>(2,415,021)</u>	<u>269,154</u>
Net Changes in Fund Balances	(2,192,019)	(2,192,019)	(435,918)	1,756,101
Fund Balances - Beginning	<u>2,192,019</u>	<u>2,192,019</u>	<u>4,228,762</u>	<u>2,036,743</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,792,844</u>	<u>\$ 3,792,844</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2003 (Continued)

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,056,668	\$ 1,441,668	\$ 1,515,545	\$ 73,877
Charges for Services	20,000	20,000	21,158	1,158
Miscellaneous	3,000	3,000	5,384	2,384
Interest	25,000	25,000	3,058	(21,942)
Total Revenues	<u>1,104,668</u>	<u>1,489,668</u>	<u>1,545,145</u>	<u>55,477</u>
EXPENDITURES				
Roads	2,408,641	2,835,897	2,834,030	1,867
Administration	410,500	368,244	367,674	570
Total Expenditures	<u>2,819,141</u>	<u>3,204,141</u>	<u>3,201,704</u>	<u>2,437</u>
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>(1,714,473)</u>	<u>(1,714,473)</u>	<u>(1,656,559)</u>	<u>57,914</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,650,000</u>	<u>1,650,000</u>	<u>1,624,195</u>	<u>(25,805)</u>
Total Other Financing Sources (Uses)	<u>1,650,000</u>	<u>1,650,000</u>	<u>1,624,195</u>	<u>(25,805)</u>
Net Changes in Fund Balances	(64,473)	(64,473)	(32,364)	32,109
Fund Balances - Beginning	<u>64,473</u>	<u>64,473</u>	<u>64,341</u>	<u>(132)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,977</u>	<u>\$ 31,977</u>

HENDERSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2003 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,389,738	\$ 2,389,738	\$ 2,479,562	\$ 89,824
Charges for Services	96,900	96,900	99,098	2,198
Miscellaneous	215,000	215,000	265,431	50,431
Interest	3,800	3,800	2,633	(1,167)
Total Revenues	2,705,438	2,705,438	2,846,724	141,286
EXPENDITURES				
Protection to Persons and Property	2,509,838	2,519,702	2,507,062	12,640
Debt Service	4,768	768		768
Administration	359,367	403,503	384,827	18,676
Total Expenditures	2,873,973	2,923,973	2,891,889	32,084
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	(168,535)	(218,535)	(45,165)	173,370
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	665,000	665,000	525,000	(140,000)
Transfers To Other Funds	(582,900)	(582,900)	(582,900)	
Total Other Financing Sources (Uses)	82,100	82,100	(57,900)	(140,000)
Net Changes in Fund Balances	(86,435)	(136,435)	(103,065)	33,370
Fund Balances - Beginning	86,435	136,435	231,745	95,310
Fund Balances - Ending	\$ 0	\$ 0	\$ 128,680	\$ 128,680

HENDERSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2003

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

HENDERSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Local Government Economic Assistance Fund	State Grant Fund	Economic Development Fund	Public Properties Corporation Capital Projects Fund	Public Properties Corporation Debt Service Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 25,373	\$ 24,826	\$ 6,356	\$ 239,732	\$ 1,385	\$ 297,672
Total Assets	<u>\$ 25,373</u>	<u>\$ 24,826</u>	<u>\$ 6,356</u>	<u>\$ 239,732</u>	<u>\$ 1,385</u>	<u>\$ 297,672</u>
FUND BALANCES						
Fund Balances:						
Reserved for:						
Special Revenue Funds	\$ 8,538	\$ 8,530	\$	\$	\$	\$ 17,068
Unreserved:						
Special Revenue Funds	16,835	16,296	6,356			39,487
Capital Projects Fund				239,732		239,732
Debt Service Fund					1,385	1,385
Total Fund Balances	<u>\$ 25,373</u>	<u>\$ 24,826</u>	<u>\$ 6,356</u>	<u>\$ 239,732</u>	<u>\$ 1,385</u>	<u>\$ 297,672</u>

THIS PAGE LEFT BLANK INTENTIONALLY

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Local Government Economic Assistance Fund	State Grant Fund	Economic Development Fund	Public Properties Corporation Capital Projects Fund
REVENUES				
Intergovernmental	\$ 536,497	\$ 249,854	\$	\$
Interest	1,136	236	59	1,973
Total Revenues	<u>537,633</u>	<u>250,090</u>	<u>59</u>	<u>1,973</u>
EXPENDITURES				
General Government	45,000			
Protection to Persons and Property	184,225	73,060		
General Health and Sanitation	447,076			
Social Services	98,292	123,240		
Recreation and Culture	14,800			
Roads	79,758			
Bus Services	32,500			
Other Transportation Facilities and Services	10,000			
Debt Service	10,000			
Capital Projects				6,417
Total Expenditures	<u>921,651</u>	<u>196,300</u>	<u></u>	<u>6,417</u>
Excess (deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>(384,018)</u>	<u>53,790</u>	<u>59</u>	<u>(4,444)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	375,000			
Transfers To Other Funds		(49,195)		(30,825)
Total Other Financing Sources (Uses)	<u>375,000</u>	<u>(49,195)</u>	<u></u>	<u>(30,825)</u>
Net Change in Fund Balances	(9,018)	4,595	59	(35,269)
Fund Balances - Beginning	34,391	20,231	6,297	275,001
Fund Balances - Ending	<u>\$ 25,373</u>	<u>\$ 24,826</u>	<u>\$ 6,356</u>	<u>\$ 239,732</u>

HENDERSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003
(Continued)

Public Properties Corporation Debt Service Fund	Total Non-Major Governmental Funds
\$ 729,446	\$ 1,515,797
161	3,565
<u>729,607</u>	<u>1,519,362</u>
	45,000
	257,285
	447,076
	221,532
	14,800
	79,758
	32,500
	10,000
1,312,346	1,322,346
	6,417
<u>1,312,346</u>	<u>2,436,714</u>
<u>(582,739)</u>	<u>(917,352)</u>
582,900	957,900
	(80,020)
<u>582,900</u>	<u>877,880</u>
161	(39,472)
1,224	337,144
<u>\$ 1,385</u>	<u>\$ 297,672</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENT AND RECOMMENDATION

**HENDERSON COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2003

STATE LAWS AND REGULATIONS

The County Should Adopt An Administrative Code In Accordance With KRS 68.005

KRS 68.005 requires the County to adopt an administrative code as noted below. As of June 30, 2003, the County had failed to comply with KRS 68.005

(1) The fiscal court shall adopt a county administrative code, which includes, but is not limited to, procedures and designation of responsibility for:

(a) General administration of the office of county judge/executive, county administrative agencies, and public authorities;

(b) Administration of county fiscal affairs, including budget formulation, receipt and disbursement of county funds and preparation of records required for the county audit, and filing of claims against the county;

(c) Personnel administration, including description and classification of non-elected positions, selection, assignment, supervision and discipline of employees, employee complaints and the county affirmative action program;

(d) County purchasing and award of contracts;

(e) Delivery of county services.

(2) The fiscal court shall review the county administrative code annually during the month of June and may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time. The county judge/executive may at other times prepare and submit amendments to the code for the approval of a majority of the fiscal court.

County Judge/Executive Sandy Lee Watkins' Response:

An administrative code has been presented to fiscal court. They opted to table it and therefore it has not been voted upon.

PRIOR YEAR FINDING

The prior year finding, "The Fiscal Court Should Adopt An Administrative Code," was not corrected and is discussed above.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Adopt An Administrative Code In Accordance With KRS 68.005

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 7, 2004

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HENDERSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

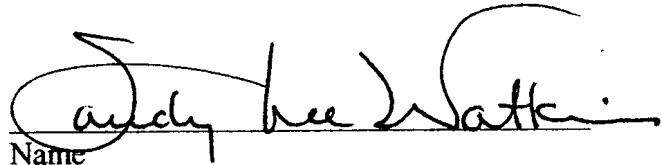
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

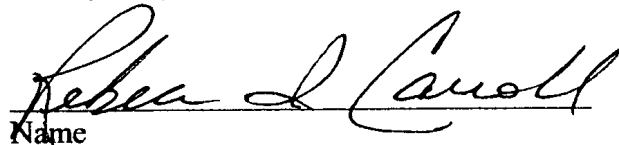
HENDERSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Henderson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Andy Lee Watten", written over a horizontal line.

Name
County Judge/Executive

A handwritten signature in black ink, appearing to read "Rebecca L. Carroll", written over a horizontal line.

Name
County Treasurer